

Division of Marketing  
Agricultural Development and Diversification (ADD) Program  
1991 Grant Final Report

Grant Number 06077

**Grant Title**     Feasibility Study & Creation of WILAMBCO A Lamb Marketing  
Cooperative

**Amount Awarded**     \$17,000.00

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# **WILAMBCO FINAL REPORT**

**ADD GRANT 6077**

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**Funding:** \$17,000

**Project Scope:** Feasibility study for and creation of WILAMBCO, a lamb marketing cooperative.

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## ***THE PROBLEM***

Instability of market prices throughout year, seasonality of production, heterogeneous consumer base, current market disincentives for quality standards, inelastic and decreasing demand, and minor in-state use of Wisconsin lamb production.

## ***THE MODEL***

The early model for this project was the Yankee Shepherd Co-op, a lamb marketing venture begun in 1984 and encompassing sheep producers in both Vermont and New Hampshire. The co-op's headquarters are in West Burke, VT, with a target market of upscale retail chains utilizing full-service meat departments, and located throughout New England and eastern New York state.

## ***THE PLAN***

The original WILAMBCO plan was simple. Without reinventing the wheel, the project's participants would adapt the Yankee Shepherd format to Wisconsin, engaging the Wisconsin Cooperative Development Council to assist in organizing a direct market lamb cooperative, with the establishment of such a co-op the goal of the first phase of this project.

## ***THE FIRST STEP***

Four people representing WILAMBCO visited the Yankee Shepherd Co-op August 10-12, 1991. At that time, the co-op's marketing efforts covered roughly 5,000 lambs per year, sold directly to stores on a carcass basis and at a hanging price of \$1.35 a pound cold. A manager handled trucking, marketing, bookkeeping and provided virtually all the labor required for day-to-day operations. The co-op owned a refrigerated tractor-trailer for hauling carcasses to retail centers, and also picked up member-producer lambs for slaughter. No other market outlets existed in the region.

## ***THE DOWNSIDE***

It was almost immediately clear to members of the tour that Yankee Shepherd had serious deficiencies that included:

1. In the five years of its operation, Yankee had failed to earn a clear-cut profit.
2. No individuals working for the co-op were bonded.
3. The co-op had been seeded with major grant monies.
4. Payments to producers for lambs marketed were as much as 60 days out.
5. Slaughter facilities well below Wisconsin standards.
6. Consistency and year-round availability of lamb a problem.
7. Capital purchases beyond perceived needs.
8. Member loyalty had been a problem.

## ***BACK TO SQUARE ONE***

The most serious drawback, however, was that Yankee Shepherd based its existence on sales of whole carcasses. It became clear that WILAMBCO could not expect to duplicate this kind of effort. In discussions with Virginia Hazlett, (Nutri-Facts), and Bill Blake, (American Lamb Council-ASI), it was learned that the carcass trade would be difficult to implement in Wisconsin and that value-added meat products could be more successful, given the right marketing channels. Convenience is the buzzword and price less of a consideration to today's consumer. The scope and complexity of the meat industry will also be an important factor in the success of any co-op venture, and that marketing product requires an aggressive and imaginative person in the lead.

## ***CHANGING HORSES***

In September of 1991, WILAMBCO met with Bob Walters, owner of Family Farm Meats in Allenton, WI to discuss the potential for value-added meat products. Family Farm Meats was a small, federally inspected slaughterhouse capable of killing up to 300 lambs a week and very competent in processed, value-added meat products.

Walters reiterated the view that it would very difficult to establish a carcass trade in Wisconsin, given the labor force available to most retail meat departments, and added the following perspectives on the challenge of direct marketing:

1. Plan on spending 1 - 2 years establishing a market.
2. Look at roll-stock packaging to increase product shelf life up to 5 weeks.
3. Refrain from restaurant sales due to price sensitivity.
4. Market to food retailer warehouses, not distributors.
5. Profit will come from value-added products made from trimmings.
6. To maintain supply, more carcasses will likely be purchased than slaughtered.

### ***SIDETRIPS***

At the same time that Family Farm Meats was contacted, an effort was made to gauge the potential of the mail order meat business. Wisconsin is home to several large, mail order gift cheese operations, including the Wisconsin Cheeseman, that also retail meat products to a largely seasonal trade. Richard Norgord, former chief financial officer for the Wisconsin Cheeseman, gave the following rules of thumb on mail order foods, using that firm as a model:

1. Normal expectation for an operation the size of the Wisconsin Cheeseman is to do \$200,000 worth of sales per page of a catalog - four products per page.
2. Expect a 2% response rate to catalog mailings.
3. Average cost per catalog for the Cheeseman would be 50 cents, including postage, on several million mailed.
4. Do not try to produce a catalog on your own.
5. Direct mailers will want 60% of gross profit on a product.
6. Promote specialty products.
7. Need product consistency.

Discussions were also begun with New World Foods of Belleville, WI, a producer of specialty, pre-cooked pork products. Bill Blake toured their facility and was interested in the potential for developing a similar value-added lamb product, but the operation was having financial problems and talks were ended.

The relationship between WILAMBCO and the Wisconsin Cooperative Development Council was also suspended due to the cost of services available and the fact that assistance for co-op formation was available at no cost through Agricultural Cooperative Service based in Washington, DC.

## ***PUTTING PENCIL TO PAPER***

The real test of marketing concepts is whether or not they pencil. WILAMBCO made the decision in early 1992 to perform trial cut-downs of lamb carcasses through Family Farm Meats with the goal of determining profit margins on both value-added cuts and processed products.

Six lambs were originally slaughtered. Bill Blake demonstrated a complete carcass cut-down emphasizing value-added cuts to Bob Walters. Walters then went through the same process on his own with two more carcasses, and test sampled various cuts to selected retail outlets. The result of these trial balloons was that the selected meat managers were impressed with the value-added cuts, but concerned 1.) that their respective meat cutters would lose work if fully prepared cuts were to be sold - this was the biggest hurdle, 2.) that there might not be sufficient and consistent supply, and 3.) that price would be a deterrent to consumers.

The remaining lambs were boned out, the legs kept whole and pre-cooked - the balance of the meat made into lean trim products that were labelled as follows:

1. Fresh brat - seasoned.
2. Pre-cooked brat.
3. Tassle - a highly seasoned, cubed product.\*
4. Andouille - Cajun flavored hot sandwich sausage.\*\*

\*The Tassle product could be used as a base meat for casseroles or soups, but ended up far too costly, (6.99 per pound) and the same thing could be done with pork for significantly less money.

\*\*The Andouille is a link-type sausage, similar to a hot dog.

Walters tested samples of these products at the wholesale level in Chicago, where they met acceptance but the outlets contacted were having difficulty moving product at the time and the managers were not open to additional items.

## **STATE FAIR**

The newly developed products were also shown to Dennis Meudt, who was preparing to place a food booth in the Ag Products Building at the 1992 Wisconsin State Fair. The Meudts chose the Andouille product, pre-cooked brats and pre-cooked legs/loins as base sandwich meats. Walters and Meudt entered into a separate contract and ultimately processed 43 head of Wisconsin lambs during the fair's run. Some meat was also purchased from a local meat distributor.

Acceptance levels from fair patrons varied between products:

1. Pre-cooked brats were marginally received. Competition from established on-grounds outlets and reputations hurt sales.
2. The Andouille was well received as an alternative sandwich product, with lots of repeat customers.
3. Pre-cooked leg/loin product was very well received with a significant number of return sales.

### ***THE BOTTOM LINE***

WILAMBCO began the financial feasibility portion of this study on the premise that producers would have to receive 70 cents a pound live for their lambs, on a year 'round basis, in order for any cooperative effort to survive. Loyalty to a co-op is an extremely important factor in its ability to grow and to be effective as a marketing tool, and loyalty is most often predicated on dollars.

In order to pencil this project, WILAMBCO had to look at base costs, which included:

A. Slaughter, Family Farm Meats	\$8.00 per head
B. Boning Carcass	\$11.00
C. Making sausage from boned meat, includes casings, seasonings, etc.	\$.99 per pound
D. Tumble and Cook, pre-cooked legs, includes 1% shrink.	\$.80 per pound
E. Vacuum Packing	\$.08 per pound

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### **CUT-OUT ANALYSIS**

WILAMBCO did a cut-out analysis on 21 lambs processed for the State Fair booth:

Live weight, 21 head	2670 pounds	127 pounds per lamb ave.
Dressed wt. total	1410 pounds, or 67 pounds per lamb, (53%)	
1410 pounds of dressed meat yielded:	237 pounds legs	
	61 pounds loins	
	361 pounds trim	
659 pounds total, 31.4# per lamb ave., 46.7% usable boneless product.		

This was less than expected. It had been anticipated that each lamb would yield close to 50% boneless product.

The cost-out on 21 lambs:

2670 pounds live x .70 cents	1869.00
Slaughter cost	168.00
Boning cost	231.00

Total cost = \$2268.00

659 pounds of boneless meat, at \$2268 = \$3.44/pound.

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The further premise was that the profit would be in the trim. WILAMBCO arbitrarily gave trim meat a value of \$1.50 per pound, or the maximum that it was felt a sausage product built around trimmings could bear. The cost of fabrication was 99 cents a pound, so the total cost of producing a sausage product was \$2.49 a pound.

Thus, 361 pounds of trim from the 21 lambs yielded \$541.50 of value, (361 x \$1.50).

Backtracking then, the remainder of the 659 pounds of boned meats from the 21 lambs was forced to bear a cost that came to \$5.80 per pound.

Further, to produce a product ready for State Fair consumption at a raw price of \$5.80 a pound, 88 cents worth of cooking and vacuum packaging per pound had to be added, for a total finished product price of \$6.68 per pound.

Reality set in when WILAMBCO's raw product costs were compared to those of a local meat distributor. During the same time, lean trim could be purchased at \$.79 a pound, and sausage could then be made for a finished price of \$1.78 a pound versus WILAMBCO's cost of \$2.49, using its own lambs. (The price advantage for the purchased trim came to \$.68 a pound, even though the raw product price for WILAMBCO's meat was arbitrary.)

In addition, purchased legs - after boning, trimming, cooking and vacuum packing - translated to \$3.10 a pound, versus the local lambs at \$6.68 a pound.

The conclusion from this exercise was that value-added products become more expensive due to added labor of boning, trimming, etc. and that lambs purchased under a floor price situation such as one might find in a cooperative marketing venture have a difficult, if not impossible, price disadvantage.

WILAMBCO concedes that the retail price of specialty cuts was not fully maximized in this example, since virtually everything was made into trim except legs and loins, which is the extreme. However, raw product decreases with each step of value-added

processing, and added capital is needed to fully merchandise to the best advantage an out-of-the-ordinary meat product, which is one reason most retail meat departments do not handle specialty cuts of lambs. It should be mentioned too that the cost of labelling was not included in any price comparisons shown.

During this same time period, East Coast lamb prices sat at \$1.305 per pound for 65 pound carcasses, while WILAMBCO's lambs priced out at \$1.45 per pound at 70 cents live. For further comparison, Family Farm Meats purchased legs from a distributor after Easter of this year for \$.99 a pound, and green hams for \$.59 a pound, illustrating how volatile the meat business can be.

### ***THE CONCLUSIONS.....***

The conclusions drawn by the WILAMBCO participants are not based on high-tech financial maneuverings nor far-removed hypothesizing. We did not commit to lengthy market studies and the co-op idealology was not pursued out of a conceptual blindness. This study was based on what would draw a sheep producer to a marketing scheme and hold that individual there.

That draw is money. Take away the money and eventually the interest wanes, despite the idealology. If a concept will fly it should test out by working backwards from a desired price level. In order for a cooperative marketing venture to succeed, it must be based on a price advantage significant enough throughout the year to overcome the open market price volatility so common to the lamb industry. A cooperative structure in reality becomes simply a tool to produce added profit; if the profits fail to materialize satisfactorily, the structure will cease to be viable and membership will fade away.

It would be wrong to conclude that a marketing co-op for lamb could not succeed. However, there should be a strong degree of entrepreneurial spirit involved at the outset, driven by profit. Volunteerism should be reduced to a bare minimum and seeding cooperative ventures with grant dollars is ill-advised. A strong and knowledgeable sales manager is a vital component as lamb marketing ventures outside of the normal channels are no doubt best served by a strong salesmanship of strictly niche products. Those sales could be based upon in-store or mail order efforts that provide an up-scale and probably over-priced product bearing specialty labels. The most successful of these types of operations are currently entrepreneurial. Whether or not a co-op, built upon multiple personalities, interest levels, production scales and management capabilities, can sustain that type of effort, make a profit and pay back its capitalization at a time when multi-million dollar packing houses are tilting dangerously is a major question.



# **WILAMBCO**

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## **FEASIBILITY STUDY *DIRECT MARKET LAMB COOPERATIVE***

### **NATURE OF THE PROJECT**

The purpose of the WILAMBCO study was to determine the feasibility of establishing a direct market lamb cooperative in Wisconsin, and if it were deemed feasible, to lay the groundwork for such a cooperative venture.

The primary product derived from the majority of the state's sheep enterprises is lamb. For at least the previous decade, the lamb market in the Midwest, and in particular Wisconsin, has been volatile - often dropping well below the accepted cost of production. Coupled with a precipitous drop in farm wool prices, the roller coaster lamb market has served to decrease individual flock size, reduce market numbers and further thwart enthusiasm for an industry that in reality should enjoy one of the highest profit potentials for livestock production. The net effect of continued market volatility has been to drive sheep production closer to cottage industry status.

The WILAMBCO study is not directed at replacing traditional market outlets and services available to Wisconsin producers, but to complement those channels and hopefully strengthen the overall price spectrum.

### **HOW THE ADD GRANT PROGRAM HAS HELPED THIS STUDY**

Funding has been utilized to visit and study existing cooperative marketing ventures, such as the Yankee Shepherd Co-op, to determine applicability to Wisconsin conditions. Further studies have been made of value-added meat products, using newly labelled test product at the Wisconsin State Fair. These products have also been subjected to reverse cost analysis to provide an indication of a possible on-farm price for live lamb to potential cooperative members.

Discussions have been held with the Agriculture Cooperative service regarding a cooperative structure and a further survey of existing co-ops will be undertaken prior to the submission of a final report.